SEI is a company driven by clients—wealth management professionals and their investors. Spurred by the desire to take a global perspective on the U.S., UK and Canadian markets, SEI and independent research firm, Scorpio Partnership*, have examined the drivers of trust within the wealth management industry. Specifically, what is trust? How is it constructed, demonstrated and delivered?

These questions drove us to this Topic of Interest series, developed with Scorpio Partnership’s THINK team. The series examines trust in the wealth sector from five angles:

- Transparency
- Independence
- Objectivity
- Empathy
- Communications

A separate paper has been developed on each of these five themes throughout the year. The research has enabled us to compare and contrast opinions to gain a deeper understanding of the perspective of high-net-worth individuals in the wealth management market. Viewpoints were collected from a total of 250 private investors and wealth managers in U.S., UK and Canada between October 2009 and October 2010.

Topic of Interest Series: Part Four
The Relationship Business: Expect the Unexpected

If you ask a wealth manager what is special, or even unique, about the wealth management business, the chances are that their response will make reference to the importance of personal relationships with their clients. Indeed, the phrase “relationship business” is so prevalent in wealth management circles that it is tempting to think of it as clichéd.

Naturally, we know this is not the case. The term may be widely applied; it may even be misunderstood; but when wealth managers talk of a relationship business, they are not being trite.

The question is: what does it mean? What does it mean to the industry to deliver a relationship service and how do clients experience this?

To deal with any prejudices about the phrase “relationship business,” we took—rather coyly—the term “empathy” as the subject of our discussions. We wanted a term that implied the full emotive force of a personal relationship, but at the same time was suitably detached from industry standards. Empathy seemed to fit the bill.

What we found was that investors rarely think of their relationships just in terms of the one-on-one time spent with their wealth managers. In fact, they consider the culture of the firm, and even the ethics of the industry, as equally important indicators of the quality of the relationship.

“Empathy means you have to hear me and understand what I am saying. You have to put yourself in the other person’s shoes and feel their pain.” U.S. investor

This raises bigger questions about whether wealth management firms can realistically expect their individual wealth managers to effectively deliver a relationship-based service, or whether there are issues of leadership at stake.

In other words, to say “we are a relationship business” with real meaning, wealth management firms must take responsibility for providing their individual wealth managers with the right environment and the right tools to foster effective relationships. And even more broadly, the wealth management industry needs to start to consider issues of best practice to build confidence in the quality of those relationships.

*Scorpio Partnership is not affiliated with SEI Investments Company or any of its affiliates.
Good Intentions Aren’t Enough

At the simplest level, the investors who took part in the research felt a relationship-based business must show that it cares about its clients. And even the most cynical among them accepted that the relationship starts with the ability of individual wealth managers to listen and understand the investors’ needs.

Many responses from investors also referenced how the environment in which the wealth manager operates affects their ability to truly deliver empathy. For example, investors referenced how wealth management firms support the individual wealth managers with tools and processes to identify and record the investors’ expectations. Some investors also referenced whether wealth managers are trained with the right technical skills to fulfill investors’ expectations.

In addition, a few investors’ responses, particularly those in the U.S. and Canada, focused on the ethics and behavior of organizations as a dimension in the relationship business.

But, if you ask investors whether the industry of wealth management is good at relationships, any positive feelings start to dwindle. An impressive 62% of investors who took part in this research thought wealth management as an industry was poor at demonstrating empathy.

The 38% who were more positive pointed to “traditional,” or “high-end,” wealth managers that they felt have a culture of client service. This was particularly the case in the U.S.

Of the investors who were more negative about the industry’s relationship capabilities, almost half made unsolicited references in their responses to the “culture of banking” at large. Their responses focused on the excesses of the banking industry pre- and post-financial crisis, with particular reference to remuneration and the bonus culture. Whether right or wrong, the view was widely held that wealth managers who enter the industry do so for personal gain and not because they are service-oriented or believe there is merit in focusing on the interests of clients.

“We have to wrestle with incentives. You have to ask if the banks are compensating for the behavior they want, and therefore, what does success mean to the relationship guy sitting in front of me?” U.S. investor

It was felt by many that this “culture of self” permeates wealth management as much as investment banking. Thus, wealth management businesses were often perceived to be hard-wired to be anything but relationship-oriented.
The responses clearly show that when it comes to delivering a relationship-based service, it is not all about the advisor. There is a ripple effect from the behavior of an individual, to the institution and out to the industry at large, with ever-decreasing levels of confidence in the ability of financial corporations to put the interests of investors at the center of their business.

Put simply, as long as clients believe the financial industry is systematically unable to show that it cares about wealth management firms, the quality of the individual wealth managers or processes remains irrelevant. The struggle to convince clients that the business of wealth management is truly relationship-driven will continue.

**Figure 1: What qualities best demonstrate empathy to you from a wealth management firm?**¹²

<table>
<thead>
<tr>
<th>Qualitative Description</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wealth manager is good at listening and understanding my needs</td>
<td>50%</td>
</tr>
<tr>
<td>The firm supports the wealth manager with the right tools to aid our communication</td>
<td>32%</td>
</tr>
<tr>
<td>The wealth manager is personable, friendly and like-minded</td>
<td>20%</td>
</tr>
<tr>
<td>The wealth manager and I have an open channel of communication at all times</td>
<td>18%</td>
</tr>
<tr>
<td>The wealth manager has the right technical skills to deliver what I want</td>
<td>14%</td>
</tr>
<tr>
<td>Behavior and ethics</td>
<td>6%</td>
</tr>
<tr>
<td>Our interests are aligned; we win and lose together</td>
<td>4%</td>
</tr>
</tbody>
</table>

¹ Based on 72 qualitative responses from 50 investors in the U.S., UK, and Canada
² Percent of investors: respondents may have given multiple responses
Rewriting the Rules of Engagement

Once again, when looking at the big themes in wealth management, we find ourselves on the cusp of a dilemma. Should wealth management firms focus on what is within their sphere of influence, namely developing client-centric processes and managing their own adviser forces? Or, should the focus of strategy be on a systemic change in behavior, culture and ethics?

The best possible answer probably lies between these two extremes. In reality—and for good reasons—most firms are intently focused on developing and implementing their own versions of a client-centric advisory model.

This makes perfect sense. In a wealth advisory market that clients characterize as “uncaring,” the opportunity to differentiate with a proposition centered on understanding the needs of the client is an attractive prize.

Almost all the wealth management firms that took part in the research defined “empathy” in terms of understanding what their investors want and delivering against those wishes.

Many of the firms that took part rely on their front-line wealth managers to carry out this task and regard relationship-building as their primary responsibility.

They speak about practical processes they employ to ensure wealth managers are on the same page as their clients. These include:

- Goal-oriented client profiling
- Segmentation initiatives
- Multi-channel communications
- Staff recruitment and retention strategies
- Elements of remuneration linked to client service
- Reducing administrative tasks
- Tracking time wealth managers spend with their clients
- Undertaking client research on products and services
- Having dedicated teams focused on ensuring processes are delivered in a client-friendly way
- Measuring loyalty and client referrals

Figure 2: What is most important in order for a wealth management firm to demonstrate empathy to its investors?

- In-depth client review meetings and discussions (40%)
- Behavior and ethics (23%)
- Goal identification and profiling discussions (9%)
- Communication strategy (7%)
- Other (21%)

3Online poll of 150 banks, brokerage businesses, registered investment advisors and financial planners in the U.S. and Canadian markets
“It is about being thoughtful and delivering customized solutions that enable the relationship to develop.” U.S. wealth manager

In addition, wealth managers were much more open about the role of corporate culture, behavior and ethics to ensure they are credible in the relationship business. In fact, in the research, 23% said “behavior and ethics” is the most important factor in demonstrating empathy with investors.

As one U.S. wealth manager put it: “We are selling trust at the end of the day, so it is imperative from Day One that we are open and honest.”

Others speak of setting ground rules, and encouraging integrity in the behavior of individual wealth managers.

Culture and ethics are also on the European agenda. In the UK, the Chief Regulator, Hector Sants, has called for an examination of what constitutes an “acceptable culture.” He broadly defines an acceptable culture to be one where “individuals are expected to act with integrity and leaders are expected to foster a culture which encourages the right behaviors.”

The range of activity underway at different wealth management firms shows a degree of leadership in this field, but it also serves to highlight the piecemeal nature of this effort. It begs the question, “How long will it take for these individual efforts to build the image of a client-centered culture for the wealth management industry at large?”

The bottom line is that investors are looking for behavioral change at both the organizational and industry levels to boost their confidence that wealth management “stands for” client care.

This, in turn, means there are some fundamental questions that need to be asked about what constitutes good practice, and what constitutes best practice, in this area. While good practice will enhance the reputations of individual wealth managers and their firms, only best practice, preferably enforced by an industry regulator, can build confidence in the whole industry.

To draw a simple medical analogy, the best doctors have a great bedside manner, but, from the patient’s perspective, it is the enforced duty of care running through the whole medical profession that gives you comfort that your life is in good hands.

Class Act

So where does the opportunity lie in this discussion? At present, there is a covert assumption among wealth managers that high-quality client engagement presents the opportunity to stand out and be different from the crowd.

Yet, the real opportunity may well lie in developing best practice and industry-wide standards. Why? Because best practice can anchor individual relationships in the security that high standards come as standard. Best practice can also demonstrate leadership that the wealth management industry cares about the concerns of its clients relating to its own culture and ethics.

At present, this reality is a long way off, but it is slowly coming into focus. From this research, we can start to build a picture of what future best practice may encompass, as four core themes featured consistently in client and wealth manager responses. These are:

- Enhanced client profiling
- Enhanced relationship management skills
- Improved communications
- Client-centric remuneration policies

The opportunity now is to start to develop standards, or good practice, in each of these areas. With a concerted effort, the potential exists to move the discussion away from what is right and what is wrong. The opportunity will emerge to focus clients’ attention, instead, on what is good about the wealth management business.
About SEI

SEI (NASDAQ:SEIC) is a leading global provider of investment processing, fund processing, and investment management business outsourcing solutions that help corporations, financial institutions, financial advisors, and ultra-high-net-worth families create and manage wealth. As of March 31, 2011, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages or administers $429 billion in mutual fund and pooled assets or separately managed assets, including $179 billion in assets under management and $250 billion in client assets under administration.

SEI’s Global Wealth Services is an outsourcing solution for Wealth Managers encompassing wealth processing services and wealth management programs, coupled with business process expertise. The integrated offering aims to provide wealth management organizations the infrastructure, operations and administrative support necessary to capitalize on their strategic objectives in a constantly shifting market.

For more information, visit www.seic.com

About Scorpio Partnership

Scorpio Partnership is the world’s leading insight and business consultancy to the global wealth industry. The firm specializes in understanding the wealthy and the financial institutions with which they interact. Scorpio Partnership has conducted more than 300 global assignments across wealth for institutions in the banking, fund management, regulation, IT and technology, insurance and charity sectors. The firm is independent and owned by management.

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